

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended September 30 and June 30, 2012 and nine  
months ended September 30, 2012 and 2011**

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## Definitions and Conversions

The following discussion is intended to assist you in understanding the Group financial position as of September 30, 2012 and results of operations for the nine months ended September 30, 2012 and 2011 and 3 months ended September 30 and June 30, 2012 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

Such terms as "Gazprom Neft", "Company," and "Group" in their different forms in this report represent JSC Gazprom Neft and its consolidated subsidiaries and equity associates. This report represents Group's financial condition and results of operations on a consolidated basis.

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of our oil fields. Crude oil purchased as well as other operational indicators expressed in barrels are translated from tonnes using a conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet are made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("boe") are made at the rate of 1 barrel per boe and of cubic feet into boe at the rate of 6 thousand cubic feet per boe.

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## Forward-Looking Statements

This discussion contains forward-looking statements concerning the financial condition, results of operations and businesses of Gazprom Neft and its consolidated subsidiaries. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning the potential exposure of Gazprom Neft to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. There are a number of factors that could affect the future operations of Gazprom Neft and could cause those results to differ materially from those expressed in the forward-looking statements contained in this Report, inclusively (without limitation): (a) price fluctuations in crude oil and gas; (b) changes in demand for the Company's products; (c) currency fluctuations; (d) drilling and production results; (e) reserve estimates; (f) loss of market and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) economic and financial market conditions in various countries and regions; (j) political risks, project delay or advancement, approvals and cost estimates; and (k) changes in trading conditions.

## Key Financial and Operating Data

3Q 2012	2Q 2012	Δ, %		9m 2012	2011	Δ, % 2012-2011
<b>Financial results (RUB million)</b>						
333,138	301,206	10.6	Revenue	912,320	757,715	20.4
95,597	70,035	36.5	Adjusted EBITDA <sup>1</sup>	244,894	222,672	10.0
6,450.5	4,747.0	35.9	RUB per toe of production	5,524.3	5,270.3	4.8
27.4	20.8	31.6	USD <sup>2</sup> per boe of production	24.2	24.9	(2.9)
55,951	30,353	84.3	Profit attributable to Gazprom Neft	134,677	123,732	8.8
50,085	53,497	(6.4)	Net cash provided by operating activities	165,819	154,837	7.1
43,736	31,964	36.8	CAPEX	106,013	87,587	21.0
161,882	137,454	17.8	Net debt	161,882	164,237	(1.4)
<b>Operational results</b>						
109.00	108.49	0.5	Hydrocarbon production including our share in equity associates (MMboe):	326.00	311.05	4.8
1.18	1.19	(0.6)	Daily hydrocarbon production (MMboepd)	1.19	1.14	4.4
94.53	92.33	2.4	Crude oil production including our share in equity associates (MMbbl)	279.32	273.75	2.0
86.87	96.95	(10.4)	Gas production including our share in equity associates (Bcf)	280.10	223.73	25.2
11.32	11.18	1.3	Refining throughput at own and equity associates refineries (MMtonnes)	32.67	30.87	5.8

<sup>1</sup> EBITDA is a non-IFRS measure. A reconciliation of adjusted EBITDA to profit before income taxes is provided in the Appendix

<sup>2</sup> Translated to USD at average exchange rate for the period

## 9m 2012 Highlights

- Started industrial production of gas from Samburgskoye field (SeverEnergiya) in April
- Produced first oil from pilot project at Vostochno-Messoyakhskoe field and Junin-6 block in Venezuela in October and September, respectively
- Tested first oil with a production well drilled at Novoportovskoe oil-gas-condensate field in August
- Started new stage of project to develop Eastern part of Orenburg field
- Started up new catalytic cracking gasoline hydrotreating unit at Omsk refinery in May, allowing production of class 5 high-octane gasoline (AI-92 and AI-95)
- Moved to 100% class 5 high-octane gasoline (AI-92 and AI-95) and 100% class 5 diesel fuel at Yaroslavl refinery from January and June, respectively
- Expanded jet fueling network by adding new airports in Russia (Kazan, Barnaul, Noviy Urengoy, Ulyanovsk, Krasnoyarsk) and CIS (Kyrgyzstan). Opened alternative fueling complex at Sheremetyevo airport. Increased number of military airports serviced to 22
- Placed series 1 issue of 1,500 USD million 10 year loan participation notes in September 2012
- Expanded retail network (29 new sites, completed rebranding 27 sites in Russia and 24 in Serbia).

## Results for 9m 2012 Compared with 9m 2011

- Higher oil prices, increased refining throughput, and growth in premium segment sales improved financial results, with 20.4% higher revenue, offset by increase in taxes (MET, excise) and tariffs of natural monopolies, driving a 10.0% increase in adjusted EBITDA
- Total hydrocarbon production including share in equity associates increased 4.8% to 326.00 million boe (Oil production increased 2.0% to 279.32 million bbl, and gas increased 25.2% to 280.10 bcf) due to continued production growth at Priobskoye field, higher associated gas output (resulting from higher utilization and uninterrupted transportation system operation), and new production sources (Orenburg assets, SeverEnergiya)
- Refining throughput increased 5.8% in response to higher domestic downstream margins.

## Operational Data and Analysis

### Production Drilling

3Q 2012	2Q 2012	Δ, %		9m 2012	9m 2011	Δ, % 2012-2011
<b>Consolidated subsidiaries</b>						
747	715	4.4	Production drilling ('000 meters)	1,949	1,809	7.8
212	163	30.1	New production wells	502	577	(13.0)
14.23	14.40	(1.2)	Average well flow (tonnes per day)	14.44	15.29	(5.6)
84.04	83.80	0.3	Watercut, %	83.76	83.76	0.0
<b>Equity associates</b>						
469	407	15.4	Production drilling ('000 meters)	1,195	1,291	(7.4)
116	101	14.9	New production wells	292	364	(19.8)

- The Group has been reorienting its drilling toward horizontal wells, which are more complex than vertical wells, but deliver greater yields. As a result the number of new production wells decreased 13.0% Y-o-Y
- Continued development of Priobskoye field and completion of wells started in previous quarters drove 30.1% Q-o-Q increase in number of new production wells.

**Production**

3Q 2012	2Q 2012	Δ, %		9m 2012	2011	Δ, % 2012-2011
	<b>(MMtonnes)</b>		<b>Crude oil</b>		<b>(MMtonnes)</b>	
3.92	3.83	2.3	Noyabrskneftegaz	11.64	12.25	(5.0)
2.90	2.83	2.5	Yugra	8.46	7.53	12.4
0.25	0.27	(7.4)	Gazprom Neft	0.81	1.09	(25.7)
0.28	0.26	7.7	Orenburg	0.78	0.01	-
0.66	0.62	6.5	Others	1.91	1.63	17.2
<b>8.01</b>	<b>7.81</b>	<b>2.6</b>	<b>Production in Russia</b>	<b>23.60</b>	<b>22.51</b>	<b>4.8</b>
0.31	0.30	3.3	Crude production outside Russia (NIS)	0.91	0.83	9.6
<b>8.32</b>	<b>8.11</b>	<b>2.6</b>	<b>Production by consolidated subsidiaries</b>	<b>24.51</b>	<b>23.34</b>	<b>5.0</b>
2.26	2.21	2.3	Share in Slavneft	6.71	6.76	(0.7)
1.29	1.27	1.6	Share in Tomskneft	3.83	3.87	(1.0)
0.96	0.94	2.1	Share in Salym Petroleum Development (SPD)	2.88	3.18	(9.4)
0.02	0.02	-	Share in SeverEnergiya (SE)	0.04	-	-
<b>4.53</b>	<b>4.44</b>	<b>2.0</b>	<b>Total share in production of equity associates</b>	<b>13.46</b>	<b>13.81</b>	<b>(2.5)</b>
			<b>Total crude oil production</b>			
12.85	12.55	2.4	MMtonnes	37.97	37.15	2.2
94.53	92.33	2.4	MMbbl	279.32	273.75	2.0
	<b>(Bcm)</b>		<b>Gas*</b>		<b>(Bcm)</b>	
1.53	1.78	(14.04)	Noyabrskneftegaz	5.22	4.94	5.67
0.02	0.02	-	Yugra	0.06	0.06	-
0.01	0.02	(50.00)	Gazprom Neft	0.05	0.06	(16.67)
0.27	0.28	(3.57)	Orenburg	0.83	-	-
0.03	0.03	-	Others	0.09	0.03	200.00
<b>1.86</b>	<b>2.13</b>	<b>(12.68)</b>	<b>Production in Russia</b>	<b>6.25</b>	<b>5.09</b>	<b>22.8</b>
0.13	0.14	(7.14)	Gas production outside Russia (NIS)	0.41	0.40	2.5
<b>1.99</b>	<b>2.27</b>	<b>(12.3)</b>	<b>Production by consolidated subsidiaries</b>	<b>6.66</b>	<b>5.49</b>	<b>21.3</b>
0.10	0.10	-	Share in Slavneft	0.31	0.32	(3.1)
0.19	0.22	(13.6)	Share in Tomskneft	0.59	0.49	20.4
0.03	0.03	-	Share in Salym Petroleum Development (SPD)	0.10	0.03	233.3
0.14	0.13	7.7	Share in SeverEnergiya (SE)	0.27	-	-
<b>0.46</b>	<b>0.48</b>	<b>(4.2)</b>	<b>Total share in production of equity associates</b>	<b>1.27</b>	<b>0.84</b>	<b>51.2</b>
<b>2.45</b>	<b>2.75</b>	<b>(10.9)</b>	<b>Total gas production</b>	<b>7.93</b>	<b>6.33</b>	<b>25.3</b>
<b>9.93</b>	<b>9.93</b>	<b>-</b>	<b>Total hydrocarbon production by consolidated subsidiaries (MMtoe)</b>	<b>29.86</b>	<b>27.78</b>	<b>7.5</b>
<b>4.89</b>	<b>4.82</b>	<b>1.5</b>	<b>Total hydrocarbon production by equity associates (MMtoe)</b>	<b>14.47</b>	<b>14.47</b>	<b>-</b>
			<b>Total hydrocarbon production:</b>			
14.82	14.75	0.5	MMtoe	44.33	42.25	4.9
109.00	108.49	0.5	MMboe	326.00	311.05	4.8
<b>1.18</b>	<b>1.19</b>	<b>(0.6)</b>	<b>Daily hydrocarbon production (MMboepd)</b>	<b>1.19</b>	<b>1.14</b>	<b>4.4</b>

\* Production volume includes marketable gas plus utilized gas

- Daily hydrocarbon production increased 4.4% Y-o-Y
- Daily hydrocarbon production decreased insignificantly by 0.6% Q-o-Q due to lower seasonal gas demand
- Group oil production increased 2.2% Y-o-Y, primarily as a result of continued growth at Priobskoye field, increased activities to improve yields and acquisition of the Orenburg assets. Increased watercut at West-Salym field resulted in 9.4% oil production decline at SPD Y-o-Y
- Group oil production increased 2.4% Q-o-Q as a result of increased activities to improve yields
- Group gas production increased 25.3% Y-o-Y, mainly as a result of new production sources (Orenburg, SeverEnergiya) and gas utilization program. The most significant increase was achieved at SPD as a result of the new "Monolit" LLC gas processing plant

- Group gas production decreased 10.9% Q-o-Q due to seasonal factors and scheduled maintenance at gas processing plants.

### Crude Oil Purchases

3Q 2012	2Q 2012	Δ, %	(MMtonnes)	9m		Δ, %
				2012	2011	2012-2011
1.99	2.37	(16.0)	Crude oil purchases in Russia *	5.96	4.59	29.8
1.23	0.79	55.7	Crude oil purchases internationally	2.30	1.20	91.7
<b>3.22</b>	<b>3.16</b>	<b>1.9</b>	<b>Total crude purchased</b>	<b>8.26</b>	<b>5.79</b>	<b>42.7</b>

\* Crude oil purchases in Russia exclude purchases from the Group's equity associates Slavneft, Tomskneft, Salyam Petroleum Development (SPD) and SeverEnergiya (SE)

- Changes in domestic and foreign market environments drove the 16.0% Q-o-Q decline in oil purchases in Russia
- Increased trading in crude oil from Iraq by Gazprom Neft Trading GmbH (under the long term purchase contract with Iraq state company SOMO) resulted in higher crude oil purchases on international markets, which rose 91.7% Y-o-Y and 55.7% Q-o-Q.

### Refining

3Q 2012	2Q 2012	Δ, %	(MMtonnes)	9m		Δ, %
				2012	2011	2012-2011
5.57	5.30	5.1	Omsk	15.78	15.41	2.4
2.78	2.94	(5.4)	Moscow	8.37	8.31	0.7
1.98	1.81	9.4	Share in Yaroslavl	5.64	5.40	4.4
<b>10.33</b>	<b>10.05</b>	<b>2.8</b>	<b>Refining throughput in Russia</b>	<b>29.79</b>	<b>29.12</b>	<b>2.3</b>
0.34	0.71	(52.1)	Panchevo and Novi Sad	1.46	1.75	(16.6)
0.65	0.42	54.8	Share in Mozyr	1.42	-	-
<b>11.32</b>	<b>11.18</b>	<b>1.3</b>	<b>Total refining throughput</b>	<b>32.67</b>	<b>30.87</b>	<b>5.8</b>

#### Production of petroleum products

2.33	2.27	2.6	Gasoline	6.74	6.32	6.6
0.08	0.12	(33.3)	Below class 2	0.29	0.34	(14.7)
0.20	0.36	(44.4)	Class 2	0.59	0.08	637.5
0.05	0.60	(91.7)	Class 3	2.15	5.21	(58.7)
1.02	1.15	(11.3)	Class 4	2.67	0.65	310.8
0.98	0.04	2,350.0	Class 5	1.04	0.04	2,500.0
0.31	0.44	(29.5)	Naphtha	1.02	0.88	15.9
3.01	2.89	4.2	Diesel	8.60	8.94	(3.8)
0.16	0.22	(27.3)	Below class 2	0.63	3.78	(83.3)
1.66	0.60	176.7	Class 2	3.34	1.92	74.0
-	0.93	-	Class 3	1.22	0.63	93.7
0.42	0.65	(35.4)	Class 4	1.61	1.56	3.2
0.77	0.49	57.1	Class 5	1.80	1.05	71.4
2.07	2.20	(5.9)	Fuel oil	6.56	6.08	7.9
0.82	0.85	(3.5)	Jet fuel	2.20	2.09	5.3
2.23	1.94	14.9	Other	5.84	4.95	18.0
<b>10.77</b>	<b>10.59</b>	<b>1.7</b>	<b>Total production</b>	<b>30.96</b>	<b>29.26</b>	<b>5.8</b>

- Refining throughput increased:
  - 5.8% Y-o-Y due to growing demand, increased effective capacity as a result of removing logistical bottlenecks, differences in refinery maintenance schedules, and production from Mozyr refinery. The 16.6% reduction in refining throughput at Panchevo and Novi Sad was planned in response to changed local market conditions
  - 1.3% Q-o-Q due to increased seasonal demand. The 5.4% reduction in refining throughput at Moscow refinery was due to maintenance of the primary refining unit in September and catalytic cracking unit in July.

- Production of class 4 and 5 gasoline and class 4 and 5 diesel fuel increased Y-o-Y as a result of production capacity modernization
- Production of class 2 gasoline increased 7.4 times Y-o-Y due maintenance of the catalytic cracking unit at Moscow refinery
- Diesel production decreased 3.8% Y-o-Y to reduce the production of fuel of low ecological class (below class2)
- Fuel oil production increased 7.9% Y-o-Y due to rescheduled startup of bitumen unit at Moscow refinery and increased refining throughput at Omsk and Yaroslavl.

### Petroleum Products Purchases on International Markets

	3Q 2012		2Q 2012		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
Naphtha	192	0.01	874	0.03	(78.0)	(66.7)
Diesel	6,731	0.22	8,133	0.27	(17.2)	(18.5)
Fuel oil	-	-	1,303	0.07	-	-
Jet fuel	1,983	0.05	1,459	0.04	35.9	25.0
Other	533	0.01	140	-	280.7	-
<b>Total</b>	<b>9,439</b>	<b>0.29</b>	<b>11,909</b>	<b>0.41</b>	<b>(20.7)</b>	<b>(29.3)</b>

	9m 2012		9m 2011		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
Naphtha	2,378	0.08	2,081	0.08	14.3	-
Diesel	19,958	0.66	11,508	0.41	73.4	61.0
Fuel oil	2,438	0.12	1,250	0.06	95.0	100.0
Jet fuel	4,920	0.14	2,646	0.09	85.9	55.6
Other	811	0.01	451	0.02	79.8	-
<b>Total</b>	<b>30,505</b>	<b>1.01</b>	<b>17,936</b>	<b>0.66</b>	<b>70.1</b>	<b>53.0</b>

- Purchases on International markets increased 53.0% Y-o-Y due to improved market environment and increased trading activity
- Purchases on International markets decreased 29.3% Q-o-Q due to increased export of own products driven by higher refining throughput.

### Petroleum Products Purchases in CIS

	3Q 2012		2Q 2012		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	423	0.01	854	0.02	(50.5)	(50.0)
Naphtha	-	-	22	-	-	-
Diesel	176	0.01	264	-	(33.3)	-
Other	111	0.01	132	0.01	(15.9)	-
<b>Total</b>	<b>710</b>	<b>0.03</b>	<b>1,272</b>	<b>0.03</b>	<b>(44.2)</b>	<b>-</b>

	9m 2012		9m 2011		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	1,277	0.03	3,231	0.17	(60.5)	(82.4)
Low octane gasoline	-	-	640	0.04	-	-
Naphtha	24	-	-	-	-	-
Diesel	795	0.02	2,315	0.10	(65.7)	(80.0)
Other	414	0.03	255	0.01	62.4	-
<b>Total</b>	<b>2,510</b>	<b>0.08</b>	<b>6,441</b>	<b>0.32</b>	<b>(61.0)</b>	<b>(75.0)</b>

- Purchases in CIS decreased 75.0% Y-o-Y due to increased supply of own products driven by higher refining throughput at Mozyr.

## Domestic Purchases of Petroleum Products

	3Q 2012		2Q 2012		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	7,406	0.27	4,929	0.19	50.3	42.1
Diesel	1,421	0.06	1,300	0.05	9.3	20.0
Fuel oil	1,338	0.07	1,126	0.07	18.8	-
Jet fuel	1,998	0.09	1,682	0.07	18.8	28.6
Other	1,077	0.06	819	0.01	31.5	500.0
<b>Total</b>	<b>13,240</b>	<b>0.55</b>	<b>9,856</b>	<b>0.39</b>	<b>34.3</b>	<b>41.0</b>

	9m 2012		9m 2011		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	17,169	0.68	14,534	0.64	18.1	6.3
Low octane gasoline	-	-	210	0.01	-	-
Diesel	3,881	0.15	5,729	0.30	(32.3)	(50.0)
Fuel oil	3,344	0.19	2,642	0.23	26.6	(17.4)
Jet fuel	5,061	0.22	2,424	0.13	108.8	69.2
Other	2,529	0.10	1,683	0.08	50.3	25.0
<b>Total</b>	<b>31,984</b>	<b>1.34</b>	<b>27,222</b>	<b>1.39</b>	<b>17.5</b>	<b>(3.6)</b>

- Domestic petroleum products purchases declined 3.6% Y-o-Y mostly due to higher refining throughput
- Domestic petroleum products purchases increased 41.0% Q-o-Q due to improved market environment and increased trading activity.

## Products Marketing

3Q 2012	2Q 2012	Δ, %		9m 2012	9m 2011	Δ, % 2012-2011
	<b>(units)</b>		<b>Active retail stations</b>		<b>(units)</b>	
979	1,041	(6.0)	In Russia	979	901	8.7
201	195	3.1	In CIS	201	170	18.2
339	372	(8.9)	In Eastern Europe	339	438	(22.6)
<b>1,519</b>	<b>1,608</b>	<b>(5.5)</b>	<b>Total retail stations</b>	<b>1,519</b>	<b>1,509</b>	<b>0.7</b>
			<b>Average daily sales per retail site in Russia (tonnes per day)</b>			
<b>18.5</b>	<b>17.1</b>	<b>8.4</b>		<b>17.2</b>	<b>13.4</b>	<b>27.9</b>
	<b>(MMtonnes)</b>		<b>Sales volume through premium channels</b>		<b>(MMtonnes)</b>	
4.78	4.55	5.1	Retail	13.43	11.58	16.0
0.58	0.52	11.5	Jet	1.54	1.20	28.3
0.84	0.73	15.1	Bunkering	2.14	1.52	40.8
0.05	0.03	66.7	Lubricants	0.11	0.09	22.2
<b>6.25</b>	<b>5.83</b>	<b>7.2</b>	<b>Total sales volume through premium channels</b>	<b>17.22</b>	<b>14.39</b>	<b>19.7</b>

- The total number of active retail sites in Russia decreased 6.0% Q-o-Q due to reconstruction, repairs, and rebranding activities. The total number of active retail sites in Eastern Europe decreased primarily as a result of the retail network optimisation
- Average daily sales per retail site in Russia increased 27.9% Y-o-Y due to higher domestic demand for petroleum products and results of the rebranding campaign, promotion and customer loyalty program.



## Results of Operations

3Q	2Q			9m		
2012	2012	Δ, %	(RUB million)	2012	2011	Δ, % 2012- 2011
<b>Revenues</b>						
399,691	379,603	5.3	Sales	1,123,829	943,605	19.1
(66,553)	(78,397)	(15.1)	Less export duties and excise tax*	(211,509)	(185,890)	13.8
<b>333,138</b>	<b>301,206</b>	<b>10.6</b>	<b>Total revenue</b>	<b>912,320</b>	<b>757,715</b>	<b>20.4</b>
<b>Costs and other deductions</b>						
(117,641)	(109,953)	7.0	Purchases of oil, gas and petroleum products	(315,165)	(232,714)	35.4
(32,042)	(28,175)	13.7	Production and manufacturing expenses	(88,736)	(77,017)	15.2
(18,090)	(15,191)	19.1	Selling, general and administrative expenses	(47,289)	(36,395)	29.9
(23,590)	(22,755)	3.7	Transportation expenses	(68,643)	(60,464)	13.5
(14,956)	(14,413)	3.8	Depreciation, depletion and amortization	(43,439)	(40,264)	7.9
(64,283)	(63,556)	1.1	Taxes other than income tax	(192,122)	(154,680)	24.2
(2,330)	(218)	968.8	Exploration expenses	(2,903)	(1,472)	97.2
<b>(272,932)</b>	<b>(254,261)</b>	<b>7.3</b>	<b>Total operating expenses</b>	<b>(758,297)</b>	<b>(603,006)</b>	<b>25.8</b>
(2,254)	1,372	-	Other income (expense), net	(645)	1,881	-
<b>57,952</b>	<b>48,317</b>	<b>19.9</b>	<b>Operating profit</b>	<b>153,378</b>	<b>156,590</b>	<b>(2.1)</b>
11,685	(1,733)	-	Share of profit (loss) of equity accounted investments	22,039	6,781	225.0
1,757	(4,849)	-	Net foreign exchange gain (loss)	(540)	1,597	-
514	1,083	(52.5)	Finance income	2,140	1,370	56.2
(2,841)	(2,683)	5.9	Finance expense	(7,862)	(8,551)	(8.1)
<b>11,115</b>	<b>(8,182)</b>	<b>(235.8)</b>	<b>Total other income/expense</b>	<b>15,777</b>	<b>1,197</b>	<b>1,218.0</b>
<b>69,067</b>	<b>40,135</b>	<b>72.1</b>	<b>Profit before income tax</b>	<b>169,155</b>	<b>157,787</b>	<b>7.2</b>
(10,838)	(4,524)	139.6	Current profit tax expense	(23,687)	(28,355)	(16.5)
(1,414)	(1,742)	(18.8)	Deferred profit tax expense	(4,696)	(1,690)	177.9
<b>(12,252)</b>	<b>(6,266)</b>	<b>95.5</b>	<b>Total income tax expenses</b>	<b>(28,383)</b>	<b>(30,045)</b>	<b>(5.5)</b>
<b>56,815</b>	<b>33,869</b>	<b>67.7</b>	<b>Profit for the period</b>	<b>140,772</b>	<b>127,742</b>	<b>10.2</b>
(864)	(3,516)	(75.4)	Less: Profit attributable to non-controlling interest	(6,095)	(4,010)	52.0
<b>55,951</b>	<b>30,353</b>	<b>84.3</b>	<b>Profit attributable to Gazprom Neft</b>	<b>134,677</b>	<b>123,732</b>	<b>8.8</b>

\* Includes excise tax, calculated based on petroleum products volumes sold by the Company's subsidiary in Serbia

## Revenues

3Q	2Q			9m		Δ, %
2012	2012	Δ, %	(RUB million)	2012	2011	2012-2011
<b>Crude oil</b>						
56,559	41,916	34.9	Export	138,318	107,342	28.9
87,325	86,543	0.9	Export sales	248,864	213,546	16.5
(30,766)	(44,627)	(31.1)	Less related export duties	(110,546)	(106,204)	4.1
-	386	-	International markets	1,023	-	-
6,352	6,460	(1.7)	Export to CIS	22,683	26,627	(14.8)
3,192	3,481	(8.3)	Domestic	9,587	169	5,572.8
<b>66,103</b>	<b>52,243</b>	<b>26.5</b>	<b>Total crude oil revenue</b>	<b>171,611</b>	<b>134,138</b>	<b>27.9</b>
<b>Gas</b>						
1,609	1,620	(0.7)	International markets	4,651	3,667	26.8
3,749	3,588	4.5	Domestic	12,301	9,437	30.3
<b>5,358</b>	<b>5,208</b>	<b>2.9</b>	<b>Total gas revenue</b>	<b>16,952</b>	<b>13,104</b>	<b>29.4</b>
<b>Petroleum products</b>						
63,216	57,238	10.4	Export	179,983	164,733	9.3
91,599	84,557	8.3	Export sales	261,601	219,588	19.1
(28,383)	(27,319)	3.9	Less related export duties	(81,618)	(54,855)	48.8
19,274	16,416	17.4	International markets	49,844	48,436	2.9
25,638	21,746	17.9	Sales on international markets	65,584	66,863	(1.9)
(6,364)	(5,330)	19.4	Excise*	(15,740)	(18,427)	(14.6)
14,411	15,544	(7.3)	CIS	42,056	28,122	49.5
15,451	16,665	(7.3)	Export sales and sales in CIS	45,661	34,526	32.3
(1,040)	(1,121)	(7.2)	Less related export duties	(3,605)	(6,404)	(43.7)
157,918	147,140	7.3	Domestic	431,124	349,879	23.2
<b>254,819</b>	<b>236,338</b>	<b>7.8</b>	<b>Total petroleum products revenue</b>	<b>703,007</b>	<b>591,170</b>	<b>18.9</b>
<b>6,858</b>	<b>7,417</b>	<b>(7.5)</b>	<b>Other revenue</b>	<b>20,750</b>	<b>19,303</b>	<b>7.5</b>
<b>333,138</b>	<b>301,206</b>	<b>10.6</b>	<b>Total revenue</b>	<b>912,320</b>	<b>757,715</b>	<b>20.4</b>

\* Includes excise tax, calculated based on petroleum products volumes sold by the Company's subsidiary in Serbia

## Sales Volumes

3Q	2Q			9m		Δ, %
2012	2012	Δ, %		2012	2011	2012-2011
<b>(MMtonnes)</b>			<b>Crude oil</b>			
3.46	3.68	(6.0)	Export	10.13	9.39	7.9
-	0.02	-	Sales on international markets	0.04	-	-
0.51	0.55	(7.3)	Export to CIS	1.88	2.24	(16.1)
0.28	0.37	(24.3)	Domestic sales	0.90	0.02	4,400.0
<b>4.25</b>	<b>4.62</b>	<b>(8.0)</b>	<b>Total crude oil sales</b>	<b>12.95</b>	<b>11.65</b>	<b>11.2</b>
<b>(bcm)</b>			<b>Gas</b>			
0.11	0.12	(8.3)	Sales on international markets	0.34	0.33	3.0
2.19	2.32	(5.6)	Domestic sales	7.44	6.74	10.4
<b>2.30</b>	<b>2.44</b>	<b>(5.7)</b>	<b>Total gas sales</b>	<b>7.78</b>	<b>7.07</b>	<b>10.0</b>
<b>(MMtonnes)</b>			<b>Petroleum products</b>			
3.68	3.48	5.7	Export	10.59	9.77	8.4
0.64	0.57	12.3	Sales on international markets	1.71	1.80	(5.0)
0.57	0.70	(18.6)	Export and sales in CIS	1.86	1.57	18.5
7.01	6.66	5.3	Domestic sales	19.41	18.37	5.7
<b>11.90</b>	<b>11.41</b>	<b>4.3</b>	<b>Total petroleum products sales</b>	<b>33.57</b>	<b>31.51</b>	<b>6.5</b>

### Average Realized Sales Prices

3Q 2012	2Q 2012	Δ, %		9m 2012	9m 2011	Δ, % 2012-2011
<b>(RUB per tonne)</b>			<b>Crude oil</b>	<b>(RUB per tonne)</b>		
25,238	23,517	7.3	Export	24,567	22,742	8.0
12,455	11,745	6.0	Export and sales in CIS	12,065	11,887	1.5
11,400	9,408	21.2	Domestic sales	10,652	8,450	26.1
<b>(RUB per tonne)</b>			<b>Petroleum products</b>	<b>(RUB per tonne)</b>		
24,891	24,298	2.4	Export	24,703	22,476	9.9
40,059	38,151	5.0	Sales on international markets	38,353	37,146	3.2
27,107	23,807	13.9	Export and sales in CIS	24,549	21,991	11.6
22,528	22,093	2.0	Domestic sales	22,211	19,046	16.6

### Crude Oil Export Sales

- The 16.5% increase in crude export sales Y-o-Y was driven by an 8.0% increase in oil prices and 7.9% increase in sales volumes resulting from market expansion (trading in crude oil from Iraq)
- Crude export sales changed by an insignificant 0.9% Q-o-Q as a 7.3% price increase offset a 6.0% volume decrease
- The decrease in crude export and sales in CIS was caused by reallocation of crude from export to refining at Mozyr
- Domestic crude sales increased with the acquisition of a subsidiary in Orenburg in 4Q 2011.

### Petroleum Products Exports

	3Q 2012		2Q 2012		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	3,121	0.10	1,879	0.06	66.1	66.7
Low octane gasoline	2,365	0.08	434	0.01	444.9	700.0
Naphtha	9,412	0.33	8,662	0.33	8.7	-
Diesel	31,329	1.02	26,872	0.92	16.6	10.9
Fuel oil	33,418	1.69	36,304	1.87	(7.9)	(9.6)
Jet fuel	2,126	0.06	1,512	0.04	40.6	50.0
Other	9,828	0.40	8,894	0.25	10.5	60.0
<b>Total</b>	<b>91,599</b>	<b>3.68</b>	<b>84,557</b>	<b>3.48</b>	<b>8.3</b>	<b>5.7</b>

	9m 2012		9m 2011		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	7,326	0.24	2,956	0.11	147.8	118.2
Low octane gasoline	3,255	0.11	800	0.03	306.9	266.7
Naphtha	26,130	0.93	21,711	0.80	20.4	16.3
Diesel	86,254	2.89	101,192	3.81	(14.8)	(24.1)
Fuel oil	101,710	5.13	79,495	4.57	27.9	12.3
Jet fuel	5,133	0.15	3,030	0.10	69.4	50.0
Other	31,793	1.14	10,404	0.35	205.6	225.7
<b>Total</b>	<b>261,601</b>	<b>10.59</b>	<b>219,588</b>	<b>9.77</b>	<b>19.1</b>	<b>8.4</b>

- Petroleum products export sales increased 19.1% Y-o-Y driven by volume and price increases of 8.4% and 9.9%, respectively
- Gasoline export volumes increased 2.5 times Y-o-Y driven by growing refining throughput at Mozyr refinery
- Fuel oil export volumes increased 12.3% Y-o-Y driven by growing refining throughput combined with decreased domestic sales
- Jet fuel export volumes increased 50% Y-o-Y driven by the growing jet fueling network
- Diesel export volumes decreased 24.1% Y-o-Y due to growing domestic demand

- Petroleum products export sales increased 8.3% Q-o-Q due to a 5.7% increase in volume and 2.4% increase in price.

### **Petroleum Products Sales on International Markets**

- Sales of petroleum products on international markets decreased 1.9% Y-o-Y driven by a 5.0% decrease in sales volumes offset by a 3.2% increase in prices
- Sales of petroleum products on international markets increased 17.9% Q-o-Q driven by volume and prices increases of 12.3% and 5.0%, respectively.

### **Petroleum Products Export and Sales in CIS**

	3Q 2012		2Q 2012		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	4,823	0.15	5,610	0.20	(14.0)	(25.0)
Low octane gasoline	1,290	0.05	1,249	0.05	3.3	-
Naphtha	-	-	374	0.02	-	-
Diesel	3,800	0.15	3,145	0.11	20.8	36.4
Fuel oil	1,128	0.09	543	0.05	107.7	80.0
Jet fuel	2,356	0.06	2,976	0.05	(20.8)	20.0
Other	2,054	0.07	2,768	0.22	(25.8)	(68.2)
<b>Total</b>	<b>15,451</b>	<b>0.57</b>	<b>16,665</b>	<b>0.70</b>	<b>(7.3)</b>	<b>(18.6)</b>

	9m 2012		9m 2011		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	14,476	0.50	12,413	0.46	16.6	8.7
Low octane gasoline	3,501	0.14	3,028	0.18	15.6	(22.2)
Naphtha	1,012	0.06	2,033	0.09	(50.2)	(33.3)
Diesel	10,751	0.41	9,347	0.40	15.0	2.5
Fuel oil	2,175	0.18	565	0.05	285.0	260.0
Jet fuel	6,993	0.18	1,857	0.08	276.6	125.0
Other	6,753	0.39	5,283	0.31	27.8	25.8
<b>Total</b>	<b>45,661</b>	<b>1.86</b>	<b>34,526</b>	<b>1.57</b>	<b>32.3</b>	<b>18.5</b>

- Sales of petroleum products in CIS increased 32.3% Y-o-Y driven by an 18.5% increase in sales volume and 11.6% increase in prices
- Volumes of fuel oil sold in CIS increased 3.5 times Y-o-Y driven by increased sales in Kazakhstan
- Volumes of jet fuel sold in CIS increased 2.5 times Y-o-Y driven by expansion of the sales network
- Sales of petroleum products in CIS decreased 7.3% Q-o-Q driven by an 18.6% decrease in volume offset by a 13.9% increase in prices.

## Domestic Sales of Petroleum Products

	3Q 2012		2Q 2012		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	56,664	2.00	54,975	2.00	3.1	-
Low octane gasoline	2,312	0.10	2,432	0.10	(4.9)	-
Diesel	50,236	2.05	46,767	1.95	7.4	5.1
Fuel oil	4,267	0.42	2,832	0.32	50.7	31.3
Jet fuel	18,485	0.81	19,459	0.94	(5.0)	(13.8)
Other	25,954	1.63	20,675	1.35	25.5	20.7
<b>Total</b>	<b>157,918</b>	<b>7.01</b>	<b>147,140</b>	<b>6.66</b>	<b>7.3</b>	<b>5.3</b>

	9m 2012		9m 2011		Δ, %	
	RUB million	MM tonnes	RUB million	MM tonnes	RUB million	MM tonnes
High octane gasoline	160,031	5.88	133,693	5.64	19.7	4.3
Low octane gasoline	6,863	0.29	13,069	0.60	(47.5)	(51.7)
Diesel	139,854	5.75	99,199	4.87	41.0	18.1
Fuel oil	13,117	1.30	30,293	2.63	(56.7)	(50.6)
Jet fuel	48,869	2.23	37,867	2.00	29.1	11.5
Other	62,390	3.96	35,758	2.63	74.5	50.6
<b>Total</b>	<b>431,124</b>	<b>19.41</b>	<b>349,879</b>	<b>18.37</b>	<b>23.2</b>	<b>5.7</b>

- Domestic sales of petroleum products increased 23.2% Y-o-Y driven by a 5.7% increase in volume and 16.6% increase in prices
- Domestic sales volumes increased 5.7% Y-o-Y driven by the 5.8% increase in production
- The 51.7% and 50.6% Y-o-Y decrease in volume of sales of low octane gasoline and fuel oil, respectively, were caused by reallocating volumes to export due to decreasing domestic demand for these products
- Domestic sales of petroleum products increased 7.3% Q-o-Q driven by a 5.3% increase in volume and 2.0% increase in prices.

## Other Revenue

Other revenue includes, primarily, revenue from transport, construction, and other services.

- The other revenue increase of 7.5% Y-o-Y and 7.5% decrease Q-o-Q were primarily driven by changes in volumes sold.

## Cost of Purchased Oil, Gas and Petroleum Products

- Cost of purchased oil, gas and petroleum products increased 35.4% Y-o-Y primarily due to the 42.7% increase in volume of crude purchased on international and domestic markets
- Cost of purchased oil, gas and petroleum products increased 7.0% Q-o-Q primarily due to higher prices.

## Production and Manufacturing Expenses

3Q	2Q			9m		
2012	2012	Δ, %	(RUB million)	2012	2011	Δ, %
						2012-2011
<b>12,926</b>	<b>11,774</b>	<b>9.8</b>	<b>Upstream expenses</b>	<b>36,430</b>	<b>34,428</b>	<b>5.8</b>
1,302	1,186	9.8	<i>RUB per toe of production</i>	1,220	1,239	(1.6)
5.55	5.22	6.4	<i>USD<sup>1</sup> per boe</i>	5.35	5.88	(8.9)
<b>8,258</b>	<b>7,783</b>	<b>6.1</b>	<b>Downstream expenses</b>	<b>23,553</b>	<b>19,536</b>	<b>20.6</b>
4,165	4,126	0.9	Refining expenses at own refineries	12,423	11,278	10.2
479	461	4.0	<i>RUB per tonne</i>	485	443	9.6
2.04	2.03	0.7	<i>USD<sup>1</sup> per boe</i>	2.13	2.10	1.3
2,916	2,489	17.2	Refining expenses at equity associates refineries	7,742	5,906	31.1
1,109	1,116	(0.7)	<i>RUB per tonne</i>	1,097	1,094	0.3
4.73	4.91	(3.7)	<i>USD<sup>1</sup> per boe</i>	4.81	5.19	(7.3)
1,177	1,168	0.8	Lubricants manufacturing expenses	3,388	2,352	44.0
<b>6,042</b>	<b>5,768</b>	<b>4.8</b>	<b>Transportation expenses to refineries</b>	<b>16,821</b>	<b>13,362</b>	<b>25.9</b>
<b>4,816</b>	<b>2,850</b>	<b>69.0</b>	<b>Other operating expenses</b>	<b>11,932</b>	<b>9,691</b>	<b>23.1</b>
<b>32,042</b>	<b>28,175</b>	<b>13.7</b>	<b>Total</b>	<b>88,736</b>	<b>77,017</b>	<b>15.2</b>

<sup>1</sup> Translated to USD at average exchange rate for the period

- Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of extraction equipment, labor costs, fuel and electricity costs, activities to enhance oil recovery, and other similar costs at our Upstream subsidiaries
- Upstream expenses increased 5.8% Y-o-Y due to an increase in the stock of active wells, expanded activities to increase yields, and acquisition of the Orenburg assets
- Upstream expenses per boe of production decreased 1.6% Y-o-Y due to increased production of oil and gas, and cost reduction programs
- Upstream expenses per boe of production increased 9.8% Q-o-Q due to a 13.1% increase in electricity tariffs from 1.99 to 2.25 RUB/kWh, expanded activities to increase yields, and oil pipeline repairs
- Refining expenses at our own refineries include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labor and electricity costs, and other similar costs
- Refining expenses at own refineries increased 10.2% Y-o-Y primarily due to higher tariffs of natural monopolies and startup of new processing units at Omsk
- Refining expenses per bbl of production at own refineries increased 9.6% Y-o-Y to 485 RUB/tonne due to changes in refinery repair schedules and a one-time expense related to the new environmental program at Moscow refinery
- Refining expenses at equity associate refineries increased 31.1% Y-o-Y and 17.2% Q-o-Q due to higher throughput at Yaroslavl and Mozyr refineries
- Transportation expenses to refineries increased 25.9% Y-o-Y due to increases in tariffs and increased refining throughput
- Transportation expenses to refineries increased 4.8% Q-o-Q due to a 9.4% increase in refining throughput at Yaroslavl and increases in oil deliveries from the more distant fields of Slavneft and SPD.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses include general business expenses, wages, salaries (except wages and salaries at our production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, allowances for doubtful accounts, and other expenses.

- Selling, general and administrative expenses increased by 29.9% Y-o-Y and 19.1% Q-o-Q due to business expansion, including higher premium sales, inflation, and an accrual for doubtful accounts receivable made in 3Q 2012 by our Serbian subsidiary in respect of amounts receivable for supplying gas.

### Transportation Expenses

Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railroad, shipping, handling, and other transportation costs

- The increase in transportation expenses Y-o-Y was driven by higher tariffs and increased sales volumes.

### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses include depreciation of oil and gas properties, refining and other assets

- Depreciation, depletion and amortization expenses increased 7.9% Y-o-Y in line with the increase in depreciable assets driven by capital expenditure.

### Taxes Other Than Income Tax

3Q 2012	2Q 2012	Δ, %	(RUB million)	9m		Δ, %
				2012	2011	2012-2011
40,157	36,717	9.4	Mineral extraction taxes	116,752	96,712	20.7
19,977	21,387	(6.6)	Excise	61,157	45,009	35.9
1,756	1,752	0.2	Property tax	5,191	4,562	13.8
2,393	3,700	(35.3)	Other taxes	9,022	8,397	7.4
<b>64,283</b>	<b>63,556</b>	<b>1.1</b>	<b>Total taxes other than income tax</b>	<b>192,122</b>	<b>154,680</b>	<b>24.2</b>

- Mineral extraction tax expenses increased 20.7% Y-o-Y due to higher tax rates for both gas and crude oil:
  - The MET rate for gas doubled from 1 January 2012
  - The MET rate for crude oil increased in proportion to oil prices, and the base rate also increased from 419 RUB/tonne to 446 RUB/tonne
- Excise tax expenses increased 35.9% Y-o-Y due to the introduction of higher rates on 1 January 2012. Excise rates on gasoline increased 31% Y-o-Y, naphtha 28%, diesel 55%, and lubricants 30%
- MET expenses increased 9.4% Q-o-Q in line with the 6.7% increase in MET rate, and 2.6% increase in crude oil production
- Excise tax expenses decreased 6.6% Q-o-Q due to decreases in excise rates for class 5 gasoline and diesel from 1 July 2012 and increased production of class 5 petroleum products.

### Share in (loss)/profit of equity accounted investments

3Q 2012	2Q 2012	Δ, %	(RUB million)	9m		Δ, %
				2012	2011	2012-2011
6,464	(3,527)	(283.3)	Share in profit/(loss) of Slavneft	9,373	1,569	497.4
2,186	1,494	46.3	Share in profit of Tomskneft	5,541	2,178	154.4
3,084	537	474.3	Share in profit of SPD	6,885	2,274	202.8
(225)	(9)	2,400.0	Share in loss of SE	(112)	(328)	(65.9)
176	(228)	(177.2)	Share in profit/(loss) of other companies	352	1,088	(67.6)
<b>11,685</b>	<b>(1,733)</b>	<b>(774.3)</b>	<b>Share in profit/(loss) of equity accounted investments</b>	<b>22,039</b>	<b>6,781</b>	<b>225.0</b>

- The Group's share in the profit of equity investments doubled Y-o-Y to 22,039 RUB million due to the adoption of the 60/66/90 tax regime in Q4 2011 (the regime reduced export duty rates for crude oil from 65% to 60%), which resulted in higher domestic crude prices and a resulting increase in the profit of associated entities selling crude oil domestically
- The Group reported a profit from its share in equity investments in 3Q 2012. In 2Q 2012 the Group reported a loss due to lower domestic oil prices and a one-off item related to an impairment loss at Slavneft.

## Other Financial Items

- Exploration expenses increased Q-o-Q due to the write down of a dry exploratory well in Cuba
- Foreign exchange gains/losses were mainly driven by a revaluation of that part of the Group's debt portfolio that is denominated in foreign currencies
- Finance income increased Y-o-Y due to more efficient cash management and decreased Q-o-Q due to withdrawal of cash from deposits to pay dividends in August 2012
- Finance expenses declined 8.1% Y-o-Y as a result of the Group's success in reducing our effective interest rate
- The Group's effective income tax rate was 16.8% for 9m 2012, which is lower than the statutory income tax rate. The lower effective rate reflects the impact of lower income tax rates for certain subsidiaries under applicable regional laws.

## Liquidity and Capital Resources

### Cash Flows

3Q 2012	2Q 2012	Δ, %	(RUB million)	9m 2012	2011	Δ % 2012-2011
50,085	53,497	(6.4)	Net cash provided by operating activities	165,819	154,837	7.1
(40,870)	(34,561)	18.3	Net cash used in investing activities	(111,172)	(96,526)	15.2
(3,305)	(10,512)	(68.6)	Net cash used in financing activities	(9,404)	(47,776)	(80.3)
<b>5,910</b>	<b>8,424</b>	<b>(29.8)</b>	<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>45,243</b>	<b>10,535</b>	<b>329.5</b>

### Net Cash Provided by Operating Activities

3Q 2012	2Q 2012	Δ, %	(RUB million)	9m 2012	2011	Δ % 2012-2011
75,661	67,644	11.9	Net cash provided by operating activities before changes in working capital	198,783	207,481	(4.2)
(23,431)	(7,690)	204.7	Net changes in working capital	(16,434)	(22,197)	(26.0)
(6,984)	(5,786)	20.7	Income tax paid	(18,930)	(31,416)	(39.7)
(2,701)	(3,052)	(11.5)	Interest paid	(7,749)	(7,654)	1.2
7,540	2,381	216.7	Dividends received	10,149	8,623	17.7
<b>50,085</b>	<b>53,497</b>	<b>(6.4)</b>	<b>Net cash provided by operating activities</b>	<b>165,819</b>	<b>154,837</b>	<b>7.1</b>

- Net cash provided by operating activities increased 7.1% Y-o-Y primarily due to improved working capital management and higher dividends received from equity associates
- Net cash provided by operating activities decreased 6.4% Q-o-Q as 19.9% growth in operating profit was offset by the growth in working capital. Working capital increased due to an increase in trade receivables driven by higher sales and increases in crude inventories

### Net Cash Used in Investing Activities

3Q 2012	2Q 2012	Δ, %	(RUB million)	9m 2012	2011	Δ % 2012-2011
(43,736)	(31,964)	36.8	Capital expenditures	(106,013)	(87,587)	21.0
(501)	(470)	6.6	Acquisition of subsidiaries and shares in equity affiliates	(971)	(7,825)	(87.6)
6,090	1,257	384.5	Net changes in deposits	(4,258)	3,433	(224.0)
(2,723)	(3,384)	(19.5)	Other transactions	70	(4,547)	(101.5)
<b>(40,870)</b>	<b>(34,561)</b>	<b>18.3</b>	<b>Net cash used in investing activities</b>	<b>(111,172)</b>	<b>(96,526)</b>	<b>15.2</b>

- Net cash used in investing activities increased 15.2% Y-o-Y to 111,172 RUB million due to increases in the volume of cash deposited in banks and a 21.0% increase in capital expenditure
- Net cash used in investing activities increased 18.3% Q-o-Q to 40,870 RUB million due to a 36.8% increase in capital expenditure, partly offset by net withdrawals of cash from deposits.



## Net Cash Used in Financing Activities

3Q	2Q			9m		
2012	2012	Δ, %	(RUB million)	2012	2011	Δ %
						2012-2011
31,755	(10,507)	(402.2)	Net changes in debt	25,933	6,027	330.3
(34,424)	(5)	-	Payment of dividends to shareholders	(34,429)	(29,121)	18.2
(13)	-	-	Acquisition of non-controlling interest in subsidiaries	(285)	(23,722)	(98.8)
(623)	-	-	Other transactions	(623)	(960)	(35.1)
<b>(3,305)</b>	<b>(10,512)</b>	<b>(68.6)</b>	<b>Net cash used in financing activities</b>	<b>(9,404)</b>	<b>(47,776)</b>	<b>(80.3)</b>

- Net cash used in financing activities decreased 80.3% Y-o-Y to 9,404 RUB million due to the following items:
  - Increases in dividends paid to 34,429 RUB million from 29,121 RUB million for 9m 2011
  - One-off items related to the acquisition of non-controlling interests (mostly in NIS and Sibir Energy) during 9m 2011 in the amount of 23,722 RUB million. During 9m 2012 such transactions were insignificant
  - Net increase in debt during 9m 2012 of 25,933 RUB million, compared with a net increase of 6,027 RUB million during 9m 2011
- Net cash used in financing activities decreased 68.6% Q-o-Q to 3,305 RUB million.

## Capital Expenditure

(RUB million)	9m		Δ, %
	2012	2011	2012-2011
Exploration and production	63,122	50,355	25.4
Refining	28,515	16,144	76.6
Marketing and distribution	9,433	7,986	18.1
Others*	4,986	3,701	34.7
<b>Subtotal capital expenditures</b>	<b>106,056</b>	<b>78,186</b>	<b>35.6</b>
Change in advances issued and material used in capital expenditures	(43)	9,401	-
<b>Total capital expenditures</b>	<b>106,013</b>	<b>87,587</b>	<b>21.0</b>

\* including capitalized borrowing costs

- Capital expenditures for Exploration and Production increased 25.4% Y-o-Y mostly due to development of the Orenburg assets. The reorientation to drilling horizontal wells (increased to 9% of total drilling footage) also led to increased capital expenditures as these wells are more expensive
- Capital expenditures for Refining increased 76.6% Y-o-Y mostly due to construction of the isomerization unit and catalytic cracking gasoline hydrotreating unit and reconstruction of the diesel hydrotreating unit at the Moscow refinery
- Capital expenditures for Marketing and Distribution increased 18.1% Y-o-Y due to increased construction and reconstruction of retail sites and the acquisition of retail sites in Chelyabinsk Oblast.

## Debt and Liquidity

(RUB million)	2012	2011
Short-term loans and borrowings	74,535	44,330
Long-term loans and borrowings	165,377	176,979
Cash and cash equivalents	(73,468)	(29,435)
Short-term deposits	(4,562)	(246)
<b>Net debt</b>	<b>161,882</b>	<b>191,628</b>
Short-term debt / total debt, %	31.1	20.0
Average Net debt / EBITDA ttm	0.56	0.66

- The Group has a diversified debt structure that includes pre-export financing, syndicated and bilateral loans, ruble bonds, and other instruments
- Average maturity of the Group's debt increased from 2.68 years in 4Q 2011 to 3.93 years in 3Q 2012 as a result of the series 1 issue of 1,500 USD million 10 year loan participation notes in September 2012
- Average interest rate decreased from 3.37% in 4Q 2011 to 3.35% in 3Q 2012.

## Financial Appendix

### EBITDA Reconciliation

3Q	2Q			9m		Δ, %
2012	2012	Δ, %	(RUB million)	2012	2011	2012-2011
<b>56,815</b>	<b>33,869</b>	<b>67.7</b>	<b>Profit for the year</b>	<b>140,772</b>	<b>127,742</b>	<b>10.2</b>
12,252	6,266	95.5	Total income tax expenses	28,383	30,045	(5.5)
2,841	2,683	5.9	Finance expense	7,862	8,551	(8.1)
(514)	(1,083)	(52.5)	Finance income	(2,140)	(1,370)	56.2
14,956	14,413	3.8	Depreciation, depletion and amortization	43,439	40,264	7.9
(1,757)	4,849	(136.2)	Net foreign exchange gain (loss)	540	(1,597)	(133.8)
2,254	(1,372)	(264.3)	Other income (expense), net	645	(1,881)	(134.3)
<b>86,847</b>	<b>59,625</b>	<b>45.7</b>	<b>EBITDA</b>	<b>219,501</b>	<b>201,754</b>	<b>8.8</b>
(11,685)	1,733	(774.3)	less Share of profit of equity accounted investments	(22,039)	(6,781)	225.0
20,435	8,677	135.5	Share of EBITDA in associate companies	47,432	27,699	71.2
<b>95,597</b>	<b>70,035</b>	<b>36.5</b>	<b>Adjusted EBITDA</b>	<b>244,894</b>	<b>222,672</b>	<b>10.0</b>

### Profitability

	2012	9m 2011	Δ, p.p. 2012-2011
Adjusted EBITDA margin, %	26.84	29.39	(2.5)
Net profit margin, %	15.43	16.86	(1.4)
Return on assets (ROA), %	15.67	16.69	(1.0)
Return on equity (ROE), %	23.79	25.94	(2.1)
Return on average capital employed (ROACE), %	20.41	21.55	(1.1)

### Liquidity

	2012	9m 2011	Δ, % 2012-2011
Current ratio	1.88	1.86	1.5
Quick ratio	0.87	0.83	4.6
Cash ratio	0.45	0.40	14.8

### Leverage

	2012	9m 2011	Δ, p.p. 2012-2011
Net debt/ Total Assets, %	13.10	15.45	(2.4)
Net debt/ Equity, %	19.61	23.85	(4.2)
Gearing, %	16.60	19.42	(2.8)
Net debt/ Market Capitalization	0.23	0.31	(25.5)
Net debt/ EBITDA	0.56	0.61	(6.8)
Total debt/ EBITDA	0.78	0.76	2.4

## Supplementary Information

### Main Macroeconomic Factors Affecting Results of Operations

The main factors affecting the Group's results of operations include:

- Changes in market prices of crude oil and petroleum products
- Changes in the exchange rate between the Russian ruble and the US dollar and inflation
- Taxation
- Changes in transportation tariffs for crude oil and petroleum products.

### Changes in Market Prices of Crude Oil and Petroleum Products

The prices for crude oil and petroleum products on international and Russian markets are the primary factor affecting the Group's results of operations.

Petroleum product prices on international markets are primarily determined by world prices for crude oil, the supply and demand of petroleum products, and competition in different markets. Petroleum product price trends on international markets in turn determine domestic prices. Price dynamics are different for different types of petroleum products.

3Q 2012	2Q 2012	Δ, %		9m		Δ, %
				2012	2011	2012-2011
			<b>International market</b>	<b>(US\$/ barrel)</b>		
109.50	108.29	1.1	Brent	112.21	111.89	0.3
108.91	106.58	2.2	Urals Spot (average Med + NWE)	110.98	109.23	1.6
				<b>(US\$/ tonne)</b>		
1,067.42	1,034.56	3.2	Premium gasoline (average NWE)	1,051.87	1,001.68	5.0
898.31	869.32	3.3	Naphtha (average Med. + NWE)	925.66	940.03	(1.5)
978.91	943.94	3.7	Diesel fuel (average NWE)	978.42	954.78	2.5
944.08	925.65	2.0	Gasoil 0.2% (average Med. + NWE)	956.27	928.60	3.0
614.75	618.12	(0.5)	Fuel oil 3.5% (average NWE)	637.51	597.47	6.7
			<b>Domestic market</b>	<b>(RUB/ tonne)</b>		
26,979	25,581	5.5	High-octane gasoline	25,498	24,324	4.8
23,519	22,952	2.5	Low-octane gasoline	22,822	21,817	4.6
24,488	23,017	6.4	Diesel fuel	23,602	20,037	17.8
9,651	9,046	6.7	Fuel oil	9,207	8,559	7.6

Sources: *Platts (international), Kortes (domestic)*

### Ruble vs. US Dollar Exchange Rate and Inflation

The Group presentation currency is the Russian ruble. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. For the majority of the entities the functional currency is the local currency of the entity.

3Q 2012	2Q 2012		9m	
			2012	2011
1.9	1.7	Change in Consumer Price Index (CPI), %	5.2	4.7
8.9	(2.7)	Change in Producer Price Index (PPI), %	9.1	10.9
30.92	32.82	US\$/ RUB exchange rate as of the end of the period	30.92	31.88
32.01	31.01	Average RUB/US\$ exchange rate for the period	31.10	28.77

## Hydrocarbon Taxes

3Q 2012	2Q 2012	Δ, %		9m 2012	2011	Δ, % 2012-2011
			<b>Export customs duty</b>			
						<b>(US\$/ tonne)</b>
366.57	443.03	(17.3)	Crude oil	403.47	410.67	(1.8)
241.90	292.33	(17.3)	Light petroleum products	266.24	276.64	(3.8)
329.90	398.70	(17.3)	High-octane gasoline and naphtha	363.10	402.60	(9.8)
241.90	292.33	(17.3)	Heavy petroleum products	266.24	188.82	41.0
			<b>Mineral extraction tax</b>			
5,147	4,826	6.7	Crude oil (RUB/ tonne)	5,086	4,368	16.4
-	-	-	Natural gas (RUB/Mcm)	-	237	-
509	509	-	Natural gas for owners of Integrated gas-supply system and its subsidiaries (RUB/Mcm)	509	-	-
251	251	-	Natural gas for other categories (RUB/Mcm)	251	-	-

**Crude oil export customs duty rate.** The export customs duty rate per tonne of crude oil is established on a monthly basis by the Government of the Russian Federation. The rate is based on the average Urals price in the period from the 15th calendar day of the prior month to the 14th calendar day of the current month (the monitoring period). The rate is effective on the first day of the month following the monitoring period.

The Government sets export custom duty rates according to the following formulas (Established by Russian Federal Law #5003-1 (21 May 1993)):

Quoted Urals price (P), USD/ tonne	Maximum Export Custom Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US\$ 12.78 + 45.0% * (P - 146.00)
>182.50	US\$ 29.20 + 65.0% * (P - 182.50)

Crude oil exports to those CIS countries that are Customs Union members (Kazakhstan, Belorussia, Kyrgyzstan) are not subject to export duties.

Prior to October 2011 when the new 60/66/90 tax regime was introduced, the top 60% marginal rate in the above export customs duty formula was 65%, although that percentage decrease was not confirmed in customs legislation

**Export customs duty rate on petroleum products.** The export customs duty rate on petroleum products is determined by the Government. Petroleum products exported to those CIS countries that are Customs Union members (Kazakhstan, Belorussia, Kyrgyzstan) are not subject to export duties.

Before February 1, 2011 export customs duty on light and middle distillates products was calculated using the following formula:  $0.438 * (\text{Price} * 7.3 - 109.5)$ , where Price is the average Urals price in US dollars per barrel. Export customs duty on dark petroleum products was calculated using the following formula:  $0.236 * (\text{Price} * 7.3 - 109.5)$ .

Resolution of the Russian Government # 1155 (December 27, 2010) changed the export customs duty rates charged on petroleum products. From February 1, 2011 the export customs duty rate on petroleum products is calculated using the following formula:

$R = K * R_{\text{crude}}$ , where  $R_{\text{crude}}$  is the export customs duty rate per tonne of crude oil and K is a coefficient depending on the type of petroleum product according to the following table:

	2011	2012	2013
Light and middle distillates	0.67	0.64	0.60
Fuel oil	0.467	0.529	0.60

In May 2011, a protective duty for gasoline exports amounting to 90% of the crude oil export duty was introduced in order to stabilize the Russian domestic market. An equivalent measure was introduced for naphtha exports in June 2011.

In August 2011, Resolution of the Russian Government # 1155 (December 27, 2010) was amended. From October 2011 the coefficient K for each type of petroleum product is established according to the following table:

	From October 10, 2011 until December 31,	
	2014	From January 1, 2015
Light and middle distillates	0.66	0.66
Fuel oil	0.66	1.00
Gasoline	0.90	0.90

**Excise on petroleum products.** In Russia, excise duties are paid by the producers of refined products. In other countries where the Group operates, excise duties are paid either by producers or retailers depending on local legislation.

Russian Federal Law # 338-FZ (November 28, 2011) established the following excise rates for petroleum products with effect from January 1, 2012:

Excise rates on petroleum products (RUB/tonne)	2011	2012		2013	2014
		from January up to June	from July up to December		
Gasoline					
Class 3	5,672	7,382	7,882	9,750	10,725
Class 4	5,143	6,822	6,822	8,560	9,416
Class 5	5,143	6,822	5,143	5,143	5,657
Naphtha	6,089	7,824	7,824	9,617	10,579
Other	5,995	7,725	8,225	10,100	11,110
Diesel fuel					
Class 3	2,485	3,814	4,300	5,860	6,446
Class 4	2,247	3,562	3,562	4,934	5,427
Class 5	2,247	3,562	2,962	4,334	4,767
Other	2,753	4,098	4,300	5,860	6,446
Motor oils	4,681	6,072	6,072	7,509	8,260

**Mineral extraction tax (MET) on crude oil.** The mineral extraction tax rate on crude oil (R) is calculated in 2012 using the following general formula:

$R = 446 * K_c * K_v * K_z$ , where

$K_c = (P - 15) * D / 261$ , where P is average monthly Urals oil price on the Rotterdam and Mediterranean markets (US\$/bbl) and D is the average ruble/ US dollar exchange rate.

$K_v$  characterizes the degree of depletion of the field. Depletion is measured by  $N/V$ , where N is the accumulated production volume from the field and V is the total reserves (ABC1 + C2 reserves volume according to the state mineral reserves balance for the specific field as at 01 January, 2006). For fields with depletion between 0.8 and 1,  $K_v = 3.8 - 3.5 * N / V$ . Where depletion is greater than 1,  $K_v$  is 0.3. In all other cases  $K_v = 1$ .

$K_z$  is a factor that decreases the tax rate for small fields. In cases where a field's initial reserves (designated by  $V_3$ , defined as ABC1 + C2 reserves volume according to the state mineral reserves balance approved in the year proceeding the tax period) are lower than 5 MMtonnes and depletion ( $N/V$ ) is less than 0.05,  $K_z = 0.125 * V_3 + 0.375$

Russian Federal Law # 307-FZ (November 27, 2010) established base mineral extraction tax rates for crude oil in the above formula for the years 2011 to 2013 as follows:

	2011	2012	2013
MET on crude oil (RUB/tonne)	419	446	470

**Mineral extraction tax (MET) on natural gas.** In 2011 the rate of mineral extraction tax for natural gas equaled 237 RUB per thousand cubic meters of natural gas. Russian federal law # 338-FZ (November 28, 2011) established mineral extraction tax rates for natural gas as follows:

	2012	2013	2014
	251*	265*	278*
MET on natural gas (RUB/ Mcm)	509	582	622

\* The lower rate of MET applies to taxpayers that do not own the central gas transportation system and that are not more than 50% owned directly or indirectly by the owners of the central gas transportation system.

### Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are established by the state authorities to ensure a balance of interests of the state and all participants in the transportation process. Transportation tariffs for natural monopolies are set by the Federal Tariffs Service of the Russian Federation ("FTS"). The tariffs are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Changes in the tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, the investment needs of the owners of transportation infrastructure, other macroeconomic factors, and the compensation of economically reasonable expenses incurred by entities of natural monopolies. Tariffs are to be revised by FTS at least annually, and comprise a dispatch tariff, loading, transshipment, pumping, and other tariffs.

The following table shows average transportation costs per tonne of the Group's crude oil for export and use at its refineries, as well as costs per tonne for the transportation of its petroleum products from refineries for export:

3Q	2Q			9m		
2012	2012	Δ, %	(RUB per tonne)	2012	2011	Δ, %
<b>Crude oil</b>						
Export						
1,505.36	1,505.15	0.0	Pipeline	1,514.53	1,405.80	7.7
CIS						
1,282.87	1,244.13	3.1	Pipeline	1,197.39	1,207.97	(0.9)
Transportation to Refineries						
441.71	444.70	(0.7)	ONPZ	454.42	441.63	2.9
819.84	813.40	0.8	MNPZ	851.63	636.55	33.8
1,067.50	722.55	47.7	YaNPZ	804.31	892.02	(9.8)
<b>Petroleum products</b>						
Export from ONPZ						
2,836.44	2,275.85	24.6	Gasoline	2,434.26	2,043.31	19.1
3,529.17	3,502.14	0.8	Fuel oil	3,503.44	3,220.30	8.8
3,376.18	3,359.55	0.5	Diesel fuel	3,276.70	2,641.85	24.0
Export from MNPZ						
1,722.81	1,694.84	1.7	Gasoline	1,660.12	1,486.81	11.7
1,368.14	1,380.39	(0.9)	Fuel oil	1,407.69	1,334.43	5.5
1,710.20	1,558.31	9.7	Diesel fuel	1,638.61	1,488.10	10.1
Export from YaNPZ						
968.00	1,473.45	(34.3)	Gasoline	1,321.19	1,440.11	(8.3)
1,360.38	1,427.13	(4.7)	Fuel oil	1,415.63	1,366.89	3.6
1,326.15	1,282.11	3.4	Diesel fuel	1,296.90	1,237.64	4.8

In the third quarter of 2012 the Group exported 60.4% of its total crude export (49.2% in 3Q 2011) through Baltic Sea ports – 41.5% through Primorsk and 18.9% through Ust-Luga; 27.5% was exported through Druzhba (20.0% in 3Q 2011), principally to Germany and the Czech Republic; 12.1% was exported through the port of Novorossiysk (light crude oil); the port of Tuapse was not used for export (2.8% in 3Q 2011); there were no exports through the ESPO pipeline or the port of Kozmino (18.9% in 3Q 2011). Exports of crude to CIS countries in the third quarter of 2012 were: 87.6% to Belarus (91.5% in 3Q 2011) and 12.4% to Kazakhstan (8.5% in 3Q 2011).

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